

Message Text

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46

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AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L REYKJAVIK 0636

E.O. 11652: GDS

TAGS: PFOR ECON MARR IC NATO

SUBJECT: ICELANDIC GOVT CRISIS: COMMENT

REF: REYKJAVIK 0630

1. ALL ICELANDIC POLITICAL ANALYSTS AGREE THAT ELECTION CAMPAIGN WILL BE BITTER. ALTHOUGH MAIN FOCUS WILL BE THE ECONOMIC CRISIS, DEFENSE WILL ALSO BE AN ACTIVE ISSUE. PRO-WESTERN SENTIMENT DEPLORES FACT THAT COMMUNISTS WILL BE ABLE TO CAMPAIGN AS SITTING MEMBERS OF THE GOVT. CONSERVATIVE ELEMENTS OF PROGRESSIVE PARTY (PP) FEAR THAT CIRCUMSTANCES MIGHT DRIVE PP CLOSER TO COMMUNISTS BECAUSE OF THIS. AT LAST MOMENT COMMUNISTS CHANGED THEIR POSITION AND SUPPORTED PRIMEMIN'S ECONOMIC MEASURES, ALTHOUGH THE KNOWLEDGEABLE AND THE SOPHISTICATED POLITICIANS IN THE PP RECOGNIZE THIS WAS AN OPPORTUNISTIC MEASURE ON THEIR PART. NEVERTHELESS THIS MIGHT HAVE SOME IMPACT FAVORABLE TO THE COMMUNISTS WITHIN THE
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PP. THE PP MIGHT GO TO EXTREMES TO BE IN THE GOVT AGAIN UNLESS

THEY CAN MANEUVER AN ACCOMMODATION WITH INDEPENDENCE PARTY. AT THE MOMENT THE PRIMEMIN CONTINUES TO BE WARY OF TOO CLOSE AN ASSOCIATION WITH THE COMMUNISTS AND IT IS BELIEVED HE WILL TRY TO STEER THE PARTY ALONG MODERATE LINES, HOPING THIS WILL PREVENT PP FROM BEING FROZEN OUT OF A NEW INDEPENDENCE PARTY-LED GOVT.

2. ALTHOUGH PRIMEMIN CAN THEORETICALLY RENOUNCE THE DEFENSE AGREEMENT IT IS CONSIDERED HIGHLY UNLIKELY HE WILL DO THIS. IT WOULD BE TOO EXPLOSIVE POLITICALLY FOR HIS OWN PARTY AND ESPECIALLY IN VIEW OF THE 55,000 SIGNATURES PETITION OPPOSING ANTI-BASE ACTION. AGAIN IT IS CONCEIVABLE, BUT CONSIDERED UNLIKELY, THAT GOVT WILL SET DATE FOR USG RESPONSE TO THE GOI DEFENSE PROPOSALS PRESENTED IN WASHINGTON LAST MONTH. PRIMEMIN PROMISED CHAIRMAN OF INDEPENDENCE PARTY LAST NIGHT THAT HE WILL EXERCISE HIS DECREE AUTHORITY IN VERY LIMITED MANNER, PROBABLY ONLY CONCERNING ECONOMIC MEASURES.

3. THERE IS GENERAL FEELING THAT COMMUNISTS AND THE INDEPENDENCE PARTY WILL GAIN IN THE NEXT ELECTION. COMMUNISTS WILL PROBABLY PICK UP 3 SEATS FROM THE LEFTIST, ANTI-IDF ELEMENT OF PP WHICH HAS, FOR ALL INTENT AND PURPOSES, BROKEN AWAY FROM PP. IF THEY DON'T VOTE FOR THE COMMUNISTS, THE PP LEFTIST ELEMENT MAY PUT UP THEIR OWN SLATE OF CANDIDATES BUT ALIGN THEMSELVES WITH THE COMMUNISTS. IF THE LATTER HAPPENS, THEY MAY PULL SOME VOTES FROM THE SOCIAL DEMOCRATS AND THE OLL, BUT STILL PROBABLY NOT GAIN MORE THAN AN ADDITIONAL SEAT BY THIS MANEUVER. THE INDEPENDENCE PARTY MAY PULL ONE SEAT FROM THE SOCIAL DEMOCRATS AND PERHAPS ONE SEAT FROM THE CONSERVATIVE ELEMENT OF THE PP. ALL OF THIS IS HIGHLY SPECULATIVE AT THIS TIME. IT WOULD APPEAR, HOWEVER, THAT INDEPENDENCE PARTY WILL BE ASKED TO FORM NEW GOVT AFTER ELECTIONS. THERE IS A COMBINATION OF COALITION POSSIBILITIES WHICH EXCLUDES COMMUNISTS.

4. ALL ANALYSTS SEEM TO AGREE AT THE MOMENT THAT THE USG HAS GAINED REGARDING THE IDF RETENTION ISSUE AND THAT BY AUTUMN A MUTUALLY SATISFACTORY IDF AGREEMENT WILL HAVE BEEN ACCOMPLISHED. THEY CAUTION, HOWEVER, THAT PSYCHOLOGY WILL PLAY A STRONG ROLE IN THE ELECTION CAMPAIGN AND THAT "WE SHOULD TREAD LIGHTLY" REGARDING BASE ACTIVITIES.

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